



chapter one

the jobs recovery

Over the last year, the U.S. labor market has weathered the significant economic shocks of 2000-2002 surprisingly well. Forecasts for very high rates of unemployment never materialized. And while the recovery in the labor market did lag the overall pace of the economy's expansion, prospects for job creation remain bright.

Employment Growth is Steady

In the second half of 2003 payroll employment began to rebound from the 2001 recession. The workforce started to recover following the collapse of the stock market bubble, the 9/11 attacks, the corporate scandals, and the wars in Afghanistan and Iraq. According to payroll survey statistics from the Bureau of Labor Statistics (BLS), from August 2003 to July 2004, 1.5 million jobs were added, with over 1 million of these since the end of 2003. Household survey data from BLS showed a much larger gain of 2.3 million jobs added since August 2003.

Most sectors have gained jobs in recent months. The largest gains have occurred in professional and business services, which added 495,000 jobs from August 2003 to July 2004. Employment in education and health services added 320,000 jobs from August 2003 to July 2004 and 1.5 million jobs since January 2001. Construction and leisure and hospitality also had large job gains over the past year.

Manufacturing employment increased by 91,000 since January 2004. Before the recent gains, manufacturing employment had declined for 42 consecutive months, and the industry lost 3 million jobs from July 2000 to January 2004.

The top five (in terms of numbers) high-growth, high-paying occupations that usually require a college degree are expected to be postsecondary

Chart 1.1 2002-12 Employment Projections: Top Five High-Growth, High-Paying Occupations that Do Not Require a Bachelor's Degree

Registered nurses	623,000
Truck drivers, heavy and tractor-trailer	337,000
Sales representatives, wholesale and manufacturing	279,000
Maintenance and repair workers, general	207,000
First-line supervisors/managers of retail sales workers	163,000

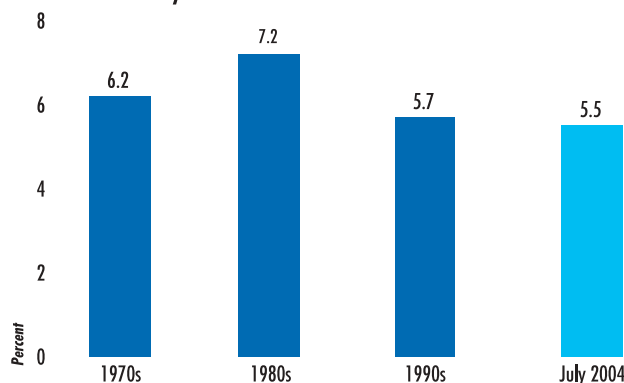
Source: Bureau of Labor Statistics, *Occupational Outlook Quarterly*, Winter 2003-04

Many of the new jobs that have been created are in industries that pay above-average wages. Although it is impossible to know the exact wage of a new job, we can observe increases in industry employment. Further, we know how the average wage for that industry relates to wages in the economy as a whole. New jobs in construction, manufacturing, education and health services, and professional and business services account for a substantial share of new employment, and these industries all pay above-average wages.

Looking forward, total employment is projected to increase by 21.3 million jobs (or 14.8 percent) over the 2002-2012 period, increasing to 165.3 million jobs. The “hottest jobs” — those with the greatest percentage increase from 2002 through 2012 — are projected to be medical assistants (+59 percent); network systems and data communications analysts (+57 percent); physician assistants (+49 percent); social and human service assistants (+49 percent); and home health aides (+48 percent).

Nurses, truck drivers, manufacturing sales representatives, maintenance workers, and managers of retail stores are the top five (in terms of numbers) fast-growing, high-paying occupations for workers who haven't completed college. (See Chart 1.1.) These jobs all receive above-average wages and are likely to be in demand in the coming years.

Chart 1.2 Average Unemployment Rates for Selected Decades Compared to July 2004



Source: Bureau of Labor Statistics, Current Population Survey

teachers (603,000 new jobs); general and operations managers (376,000 new jobs); elementary school teachers, except special education (223,000 new jobs); accountants and auditors (205,000 new jobs); and computer systems analysts (184,000 new jobs).ⁱ

Recent employment gains accompany substantial growth in the gross domestic product (GDP). Real GDP grew at an annual pace of 3.0 percent during the second quarter of 2004. The growth over the past four quarters was 4.7 percent, among the highest in the past 20 years. Real GDP growth for 2004 is expected to be above the historic average.

Business investment grew in 2003, as companies started to hire, build inventories, and increase shipments of nondefense capital goods. Remarkable productivity growth since 1995 has led to higher wages and lower prices, meaning a better standard of living for U.S. workers and their families.

Unemployment is Low by Historical Standards

The unemployment rate was at or near 5.6 percent during the first seven months of 2004, down from its most recent peak of 6.3 percent in June 2003. At 5.5 percent, the unemployment rate in July 2004 was lower than the average rates of the 1970s (6.2 percent), 1980s (7.2 percent), and 1990s (5.7 percent). From 2003 to 2004, unemployment rates declined in 49 states.

Unemployment Insurance

The federal-state Unemployment Insurance (UI) program, to be discussed in more detail in Chapter Four, helps workers who have fallen on hard times. The program was created in 1935 in response to the Great Depression,

when millions lost their jobs. Unemployed workers were unable to afford goods and services, which contributed to additional layoffs. The federal-state UI program provides unemployment benefits to workers who are unemployed and who meet other eligibility requirements of state law.

Initial UI claims peaked in late 2001 at the end of the recession as the unemployment rate was increasing. The number of claims hovered above the 400,000 mark for the following two years, and then fell markedly from the middle of 2003 to early 2004. The four-week moving average of initial claims has been below 350,000 for several months—a level consistent with further job growth. (See Chart 1.3.)



Chart 1.3 Four-Week Average of Initial Claims for Unemployment Insurance, August 2001 - August 2004

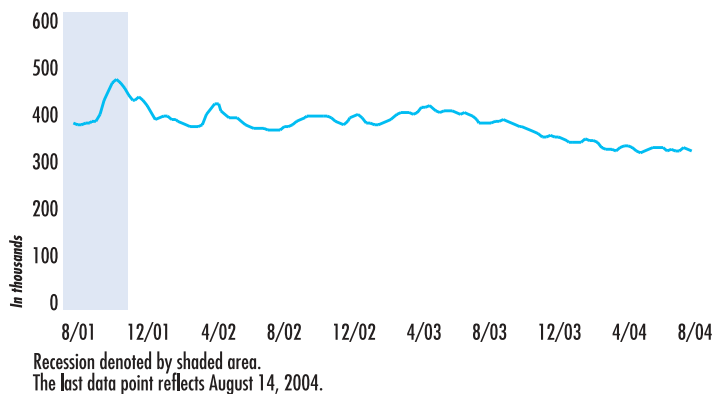
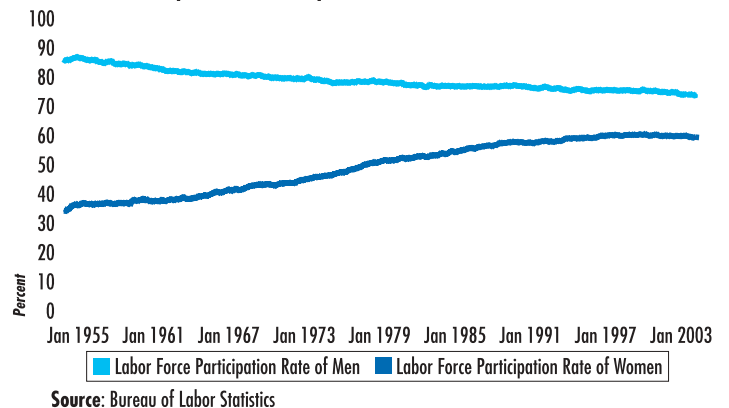


Chart 1.4 Labor Force Participation Rates of Men and Women, January 1955 - January 2003



The Demographics of the Labor Force are Changing

Male & Female Workers

The labor force participation rate of men has been gradually declining due in part to earlier retirement. Although men's labor force participation rates remain above that of women, the labor force participation rate of women increased significantly during the 20th century. The long-term growth in the female labor force largely reflects more mothers in the workforce. Indeed, 72 percent of mothers with children under 18 are in the labor force today, up from 47 percent in 1975.ⁱⁱ The labor force participation rates of women and men are considerably closer than they were in the 1960s, 1970s, or 1980s. (See Chart 1.4.)

The increase in the labor force participation rate of women and the decline among men means that the percent of workers that are women has increased. In 2003, nearly 47 percent of labor force participants were women, up from 43 percent in 1983, 39 percent in 1973, and 34 percent in 1963.

Not only are women a vital component of the labor market, but they make up a growing share of small business owners. As President Bush said, "When it comes to entrepreneurship and job creation, ours is an increasingly woman's world."ⁱⁱⁱ According to the Census Bureau, the number of women-owned firms grew almost three times as fast as all firms between 1992 and 1997.^{iv} Currently, America's 9.1 million women-owned businesses employ 27.5 million people and contribute \$3.6 trillion of revenue to the economy.^v

More women are in the labor force because they are achieving higher levels of education, and more women attend university because they intend to join the labor force. According to the Census Bureau, 56 percent of college students are women, and women have been the majority of college students since 1979. Whereas fewer than 4 percent of women 25 years old and over had completed four years or more of college in 1940, 26 percent of women had earned a bachelor's degree or more in 2003.

The labor force participation rate of women has declined slightly in the past few years. It peaked at 60.0 percent in 1999, and stood at 59.5 percent in 2003. The trends differ across age groups. Since 2000, there has been a sharp decline in labor force participation among women ages 16 to 24, with fewer declines for women ages 25 to 34 and 35 to 44. In contrast, rates for women ages 55 to 64 have continued to rise, moving from 51.9 percent in 2000 to 56.6 percent in 2003.

Participation rates of women also differ by motherhood status. In 2000, the labor force participation rate of mothers with infant children fell to 55 percent from a record-high 59 percent in 1998. This was the first significant decline since the Census Bureau developed the indicator in 1976. The participation rate remained at 55 percent in 2002.^{vi}

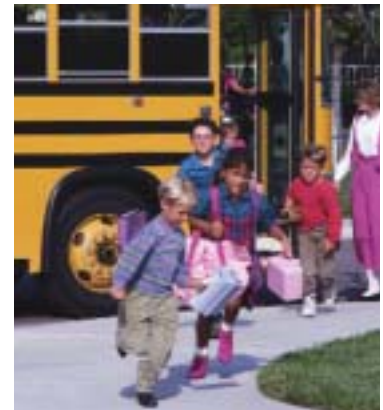
An emerging trend is the decline in labor force participation among highly educated mothers over 30. It is too soon to see if this is a permanent trend. Many women have made a choice to stay home with their children. While women of the Baby Boom generation pursued career opportunities that were unavailable to their mostly stay-at-home moms, many women of Generation X appears to be forgoing paychecks for time with their family.

Young Workers

The Fair Labor Standards Act allows the employment of 14- and 15-year-olds outside school hours, but prohibits them from working past 9 p.m. in the summer and 7 p.m. during the school year. The law also limits them to working three hours per day on a school day. Young persons 14 and 15 years of age can work in many non-manufacturing and non-hazardous jobs.

The Entrepreneurial Spirit of America: Providing Tax Relief to American Families and Small Businesses.

In 2001 President Bush acted promptly to help America's workers by providing tax relief to put more money in families' pockets and encourage businesses to grow and invest. Tax relief brought substantial savings to families and helped fight back the effects of the recession. America's families and small businesses have more money to spend, save, and invest because of the President's 2001 and 2003 tax cuts. This year, 111 million taxpayers will receive, on average, a tax cut of \$1,586 and 25 million small business owners will receive \$75 billion in total tax relief, enabling them to increase hiring.



The Jobs and Growth Tax Relief Reconciliation Act of 2003 accelerated the tax relief signed into law by the President in 2001, including marriage penalty relief, an increase in the child tax credit, and tax rate reductions for every family and small business that pays income taxes.

The President's 2001 and 2003 tax cuts also provided new incentives for businesses, especially small businesses, to invest in plants and equipment and create new jobs.

President Bush Has Called on Congress to Extend His Tax Relief Plan.

If Congress does not act, American families and businesses would see a tax increase starting next year, thereby hurting economic recovery and future job creation. Unless Congress takes action:

- **In 2006, the small business expensing limit will shrink from \$100,000 to just \$25,000, increasing the cost of capital investments for America's small businesses and making it more difficult for them to hire workers;**
- **In 2009, the top tax rate on dividends will increase from 15 to 35 percent, while the tax on capital gains will climb from 15 to 20 percent, raising the tax burden on retirees and families investing for their future; and**
- **In 2011, the tax rate relief, new 10-percent tax bracket, death tax repeal, marriage penalty relief, small business expensing, and all the remaining tax relief enacted over the past three years will sunset, resulting in tax increases for every individual American man or woman who pays income taxes and making it harder for businesses to hire workers.**



Data from the National Longitudinal Survey of Youth (NLSY) of 1997 show substantial work activity among 14- and 15-year-olds. More than half (57 percent) of all youths worked at age 14. Most working 14-year-olds held free-lance jobs, such as babysitting or mowing lawns. At age 15, 64 percent of youths worked. Many young people worked in eating and drinking places, with 17 percent of working 14-year-olds and 29 percent of working 15-year-olds employed this sector.^{vii} The NLSY data of 1979 show that younger Baby Boomers (i.e., people born in the years 1957 to 1964) held an average of 4.4 jobs from age 18 to 22.^{viii}

Older Workers

While men today are retiring earlier than they did half a century ago, in the past three years labor force participation rates have actually increased for men age 55 and older. Participation rates are also up for women age 55 and older. First, people are living longer and healthier lives. Second, the removal of the Social Security earnings test via the Senior Citizens' Freedom to Work Act of 2000 eliminated work disincentives for seniors. No longer are Social Security benefits reduced for beneficiaries who retire at normal retirement age and earn wages.

Third, defined contribution retirement plans have become more popular. While workers covered by defined benefit plans typically face strong incentives to retire at the plan's early retirement age, workers covered by defined contribution plans know that they continue to save by working longer.

In addition, stock market fluctuations between 2000 and 2003 caused some seniors to postpone retirement due to diminished retirement

savings, while other seniors re-entered the labor force after previously retiring. Whatever the cause, more seniors are spending additional time in the labor force during their golden years.

Looking forward, labor force growth for the 2002-2012 period will be affected by the aging of the Baby Boom generation. The median age of the labor force was 34.6 years in 1982, 36.6 years in 1992, and 40.0 years in 2002, and is projected to reach 41.4 years in 2012. This increase is due in part to growth of the older population, as well as to continued increases in seniors' labor force participation rates.^{ix} The rising age also results from fewer young people in the labor force, both because of a smaller population of young people and a decline in their labor force participation rates.

African-Americans, Asians, and Hispanics in the Workforce

The labor force is becoming increasingly diverse. With faster population growth and increasing participation rates, the share of minorities in the workforce will grow substantially in the coming decades. The share of white non-Hispanics in the labor force is anticipated to decrease from 73 percent in 2000 to 53 percent in 2050. Over the same period, Hispanics are expected to more than double their share, from 11 percent in 2000 to 24 percent of the labor force in 2050. Blacks also are expected to increase their share, from 12 percent in 2000 to 14 percent in 2050. Asians, the fastest-growing group in the labor force, are projected to increase their share from 5 percent to 11 percent between 2000 and 2050.^x



As the table below shows, Hispanics and Asians are the fastest-growing racial and ethnic groups in the workforce. Immigration is a significant driver of this labor force growth, particularly since immigrants include many young adults of working age who have come to the United States in search of better job opportunities and higher wages. These factors contribute to the growing diversity of the U.S. population and labor force.^{xi}

People with Disabilities

More than a decade after passage of the Americans with Disabilities Act, the employment rate of people with disabilities remains low. According to the U.S. Census Bureau, about 50 million Americans of all ages have a disability. Among working age adults, only about 60 percent of men and 51 percent of women with disabilities were working in 2000.^{xii}

Although people with disabilities have lower employment rates than those without disabilities, once on the job, the two groups do not differ fundamentally in the nature of their working conditions. One of the few ways in

which their working conditions differ is that people with disabilities are more likely to work at home exclusively.^{xiii} To enhance opportunities for more people with disabilities to enter the workforce and participate fully in their communities, President George W. Bush announced his New Freedom Initiative (NFI) for people with disabilities.

The President's NFI is a comprehensive program to promote the full integration of people with disabilities into all areas of society by increasing access to assistive and universally designed technologies, expanding educational and employment opportunities, and promoting enhanced access into daily community life. The Bush Administration is also committed to the full enforcement of the Americans with Disabilities Act.

In support of the NFI, the Office of Disability Employment Policy (ODEP) was created at DOL in 2001. The mission of ODEP is to provide leadership to increase employment opportunities for adults and youth with disabilities. ODEP was funded at approximately \$47 million in Fiscal Year 2004.

Table 1.1 Civilian Labor Force by Race and Hispanic Origin, 2000 and Projected 2050

Group	Level (in thousands)		Change	Percent Change	Percent Distribution	
	2000	2050	2000 - 50	2000 - 50	2000	2050
Total, 16 years & older	140,863	191,825	50,961	36.2	100.0	100.0
White	117,574	143,770	26,196	22.3	83.5	74.9
Black	16,603	27,084	10,481	63.2	11.8	14.1
Asian and other*	6,687	20,960	14,274	213.5	4.7	10.9
Hispanic origin**	15,368	45,426	30,058	195.6	10.9	23.7
Other than Hispanic Origin	125,495	146,399	20,903	16.7	89.1	76.3
White, non Hispanic	102,963	102,506	(457)	-0.4	73.1	53.4

*Asian and other includes (1) Asians and Pacific Islanders and (2) American Indians and Alaska Natives.

**Hispanics can be of any race; most report that they are white.

Source: Mitra Toossi, "A Century of Change: the U.S. Labor Force, 1950-2025," *Monthly Labor Review*, May 2002.

In addition, DOL's Employment and Training Administration provides \$20 million in incentive grants to assist workers with disabilities in accessing the full spectrum of re-employment services offered at One-Stop Career Centers across the nation.

Veterans

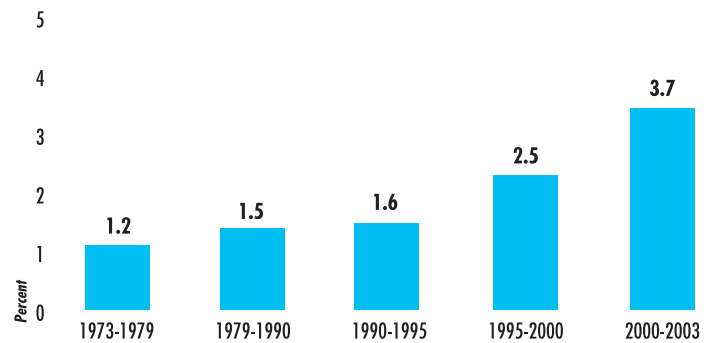
Approximately 23.7 million Americans, or nearly 11 percent of U.S. labor force, are veterans. The 2000 Census found that most veterans are employed. Among veterans serving in August 1990 or later, 81 percent were employed, while 83 percent of those who served from September 1980 to July 1990 were employed.^{xiv}

According to BLS, veterans discharged from active duty between January 2001 and August 2003 had a labor force participation rate of 89 percent and an unemployment rate of 6.9 percent in August 2003. As a whole, veterans had an unemployment rate of 4.5 percent, compared with 5.9 percent for nonveterans.^{xv} The mission of the Veterans' Employment and Training Service at DOL is to provide veterans with resources and services to succeed in the 21st Century workforce by maximizing their employment opportunities and protecting their employment rights.

Productivity

High labor productivity is one of America's strongest assets. Increased productivity benefits workers through higher compensation and lower prices. From 1990 to 1995, labor productivity grew at an average annual rate of 1.6 percent. (See Chart 1.5.) That rate increased to 2.5 percent between 1995 and 2000, and reached a 3.7 percent annual rate of growth between 2000 and 2003. This escalation in

Chart 1.5 Average Annual Rate of Change in Labor Productivity, NonFarm Business Sector



Source: Bureau of Labor Statistics

productivity growth is remarkable by historical standards. From the first quarter of 2001 to the first quarter of 2004, productivity increased by a total of 14.1 percent—the fastest three-year growth in 40 years.

Technology is a key contributor to this tremendous productivity growth. Not only has productivity grown within the information technology sector itself, but technological advances have increased productivity in many sectors of the economy. The use of modern technology has increased efficiency economy-wide, from manufacturing processes to inventory management. Technology is widespread in the workplace and computers have become an indispensable business tool. More than half of all Americans use a computer on the job.^{xvi}

High productivity makes U.S. workers attractive to foreign companies and is one reason why foreign companies do business in the United States. As Americans produce more goods and services per worker than anyone else in the world,^{xvii} our workforce becomes appealing to foreign companies. It is estimated that foreign-owned firms directly employ

about 6 million workers in the United States^{xviii} and indirectly employ millions of others.

Compensation

Job growth due to foreign investment is not the only benefit workers reap from high productivity. Productivity growth can also increase workers' earnings, particularly in tight labor markets. As workers produce more, employers may compensate them for their higher productivity. Accordingly, real average hourly earnings (i.e., earnings adjusted for inflation) have risen since the mid-1990s.

Earnings are only part of the compensation picture. Workers are receiving a growing portion of their compensation in the form of benefits rather than wages, with benefits now contributing 30 percent to total compensation costs. From 1979 to 2003, the cost of wages and salaries increased 17.2 percent, while the cost of benefits grew 55.1 percent over the same period. Since 2000, the over-the-year gains in benefit costs have strongly outpaced the gains for wages and salaries.

Promoting Flexibility for a Changing Workforce

“These are exciting times for our country. It's a time of amazing change. The economy is changing. The world is changing...We need to make sure government changes with the times, and to work for America's working families.”

- President George W. Bush, July 30, 2004

Today's workforce has changed dramatically over the last 50 years. More parents are working now than ever before. But many of the nation's labor laws were designed a generation ago. Provisions in these laws do not fit today's changing workplace, and do not give workers the flexibility to spend more time with their families.

President Bush has called on Congress to pass legislation giving American workers more options to help families better juggle the demands of work and home through comp-time and flex-time.

Comp-Time enables employees to choose paid time off as an alternative to overtime pay. Therefore, a worker who opts for comp-time and works 8 hours of overtime is entitled to 12 hours off (1.5 hours off per every hour of overtime).

Flex-Time gives an employee the option of "flexing" his or her schedule over a pay period, by scheduling more than 40 hours of work in one week, and then scheduling less than 40 hours in the following week. For example, an employee may request to work 48 hours one week in a two-week pay period to offset a paid day off during the following week to chaperone a child's school trip.

The President's plan would ensure employee protections by making the program voluntary and honoring collective bargaining agreements.

Prices

In addition to paying workers more, rising productivity also means that businesses can produce goods and services at a lower cost. This translates into lower prices for consumers. Consequently, inflation has remained low and stable. The Consumer Price Index (CPI) increased just 2.3 percent during 2003.^{xix} The core CPI (which excludes food and energy) rose only 1.4 percent during 2003, considerably below the 2.4 percent increase of the previous year.

When workers encounter both larger paychecks and lower price tags, they are able to afford more goods and services for their families. In this way, productivity growth gener-

ates a higher standard of living for Americans.

May 2001, and increased 2.6 percentage points since July 2003. The Institution for Supply Management (ISM) manufacturing employment index indicated employment expansion for the ninth straight month in July 2004.

Household spending continues to be strong, pointing to a continued growth in employment necessary to fill consumers' shopping baskets. Housing has also been strong, which is increasing the demand for workers in construction and related sectors. Housing starts remained near their highest level in almost 20 years. New single-family home sales hit a new record high in May 2004. Americans' confidence about the future can

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The Outlook

The economy is showing many signs that the expansion in employment and the favorable labor market conditions will continue. In the manufacturing sector, new orders for manufactured durable goods during the first seven months of 2004 were 12.4 percent above the same period a year ago. Industrial production had its largest quarterly increase in nearly four years with a 6.7 percent increase during the first quarter of 2004. Manufacturing employment began to reverse a 42-month decline in employment, adding 91,000 jobs since January 2004.

In July 2004, capacity utilization — the amount of potential production capacity used by firms—remained near its highest level since

be seen in the results of two recent surveys, which confirm that Americans are confident about the economy's future. The Conference Board's survey of consumer confidence rose in July, and the University of Michigan's index of consumer sentiment remains above its average 2001, 2002, and 2003 levels. The jobs recovery that began in 2003 is expected to continue for the foreseeable future.

Conclusion

Despite a recession and the onset of a bear market in 2000, corporate accounting scandals and the most destructive terrorist attacks in history, the U.S. economy has persevered and again boasts of a strong labor market with low unemployment and vast opportunity for all American workers. These economic opportunities will only continue to grow in the future.

Notes

ⁱ BLS, *Occupational Outlook Quarterly* (Winter 2003-04).

ⁱⁱ BLS, Current Population Survey.

ⁱⁱⁱ President Bush, Women Entrepreneurship in the 21st Century Conference (March 19, 2002).

^{iv} U.S. Census Bureau, "Women-Owned Businesses: 1997" (October 2001). The number of women-owned firms increased 16 percent from 1992 to 1997, compared to a 6 percent increase for U.S. firms in general, excluding publicly held corporations.

^v U.S. Small Business Administration, <http://www.sba.gov/financing/special/women.html>.

^{vi} U.S. Census Bureau, "Fertility of American Women: June 2002," October 2003.

^{vii} Donna S. Rothstein, "Youth Employment in the United States," *Monthly Labor Review* (August 2001).

^{viii} BLS, "Number of Jobs Held, Labor Market Activity, and Earnings Growth among Younger Baby Boomers: Recent Results from a Longitudinal Survey" (August 25, 2004).

^{ix} Mitra Toossi, "Labor Force Projections to 2012: The Graying of the U.S. Work Force," *Monthly Labor Review* (February 2004).

^x Mitra Toossi, "A Century of Change: the U.S. Labor Force, 1950-2050," *Monthly Labor Review* (May 2002).

^{xi} Mitra Toossi, "A Century of Change: the U.S. Labor Force, 1950-2050," *Monthly Labor Review* (May 2002).

^{xii} U.S. Census Bureau, "Disability Status: 2000" (March 2003). People were defined as having a disability if one or more of the following conditions were true: (1) they were aged 5 or older and responded "yes" to a sensory, physical, mental, or self-care disability; (2) they were aged 16 years or older and responded "yes" to a disability affecting going outside the home; or (3) they were between the ages of 16 and 64 and responded "yes" to an employment disability.

^{xiii} Edward H. Yelin and Laura Trupin, "Disability and the Characteristics of Employment," *Monthly Labor Review* (May 2003).

^{xiv} U.S. Census Bureau, "Veterans: 2000" (May 2003).

^{xv} BLS, "Employment Situation of Veterans: July 2004."

^{xvi} Steven Hipple and Karen Kosanovich, "Computer and Internet Use at Work in 2001," *Monthly Labor Review* (February 2003).

^{xvii} BLS, Office of Productivity and Technology, "Comparative Real Gross Domestic Product Per Capita and Per Employed Person, Fourteen Countries, 1960-2002" (July 29, 2003).

^{xviii} William J. Zeile, "U.S. Affiliates of Foreign Companies: Operations in 2001," *Survey of Current Business*, Bureau of Economic Analysis, August 2003, pg. 45. William J. Zeile, "Operations of U.S. Affiliates of Foreign Companies: Preliminary Results from the 2002 Benchmark Survey," *Survey of Current Business*, Bureau of Economic Analysis, August 2004, pg. 199.

^{xix} The Consumer Price Index for All Urban Consumers (CPI-U), Seasonally Adjusted.